

## Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01

USIA-15 DRC-01 FTC-01 INT-08 IGA-02 /202 W

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R 061730Z MAR 74

FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 1926

INFO AMEMBASSY DAKAR

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 NOUAKCHOTT 207

EO 11652: GDS

TAGS: ECON MR

SUBJECT: CONTINUED ECONOMIC MALAISE: SOME SMALLER FRENCH FIRMS  
PULLING OUT, BUT MOST EXPATRIATES STANDING PAT

REF: NOUAKCHOTT 0001, A-1, AND A-11

SUMMARY: OVER THE PAST 15 MONTHS, SINCE THE NOVEMBER 1972  
ANNOUNCEMENT THAT MAURITANIA WOULD QUIT THE FRANC ZONE AND  
CREATE ITS OWN NATIONAL CURRENCY, THIS EMBASSY HAS PERIODICALLY  
REPORTED ON THE MOOD OF THE SMALL BUT IMPORTANT EXPATRIATE  
BUSINESS COMMUNITY HERE. ONLY RECENTLY HAVE WE DETECTED THE  
BEGINNINGS OF A TREND IN THE EXPATRIATE BUSINESS COMMUNITY  
WITH SOME SMALL AND MEDIUM-SIZED FIRMS PULLING OUT IN THE WAKE  
OF RESTRICTIVE EXCHANGE CONTROL AND IMPORT LICENSING REGULATIONS  
IMPOSED IN CONJUNCTION WITH ISSUANCE OF MAURITANIA'S CURRENCY, THE

OUGUIYA (UM). WHILE MOST OF THE LARGER FRENCH-CONTROLLED TRADING  
FIRMS (E.G. SCOA) HAVE RETRENCHED, TAKEN ON MAURITANIAN PARTNERS  
AND ADOPTED A WAIT-AND-SEE ATTITUDE, JANUARY AND FEBRUARY SAW  
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THE FIRST OF THE SMALLER EXPATRIATE FIRMS (E.G. PERRISAC,

BUHAN AND TERRIERE) SELL OUT TO MAURITANIAN ENTREPRENEURS. THE LARGE LEBANESE COMMUNITY--WITH ONE MAJOR EXCEPTION--HAS SO FAR, STAYED PUT DESPITE THE FACT THAT THEY CONTROL MANY OF THE SMALL AND MEDIUM-SIZED BUSINESSES MOST VULNERABLE TO GIRM'S PUSH TO MAURITANIANIZE THE IMPORT-EXPORT TRADE. WITH GIRM NOW ENFORCING RULINGS THAT COMMERCIAL CORPORATIONS CAN REMIT OVERSEAS ONLY 50 PERCENT OF PROFITS AND SALARIED EXPATRIATES ONLY 30 PERCENT OF THEIR WAGES, WE WOULD EXPECT TO SEE A CONTINUED EXODUS OF FOREIGNERS AND THEIR CAPITAL OVER THE NEXT FEW MONTHS. ON THE OTHER HAND, THE HANDFUL OF LARGER TRADING FIRMS HERE WILL PROBABLY STICK IT OUT, AT LEAST FOR THE TIME BEING, AND WE MAY EVEN SEE SOME NEW FOREIGN CAPITAL COMING IN, PARTICULARLY IN SUPPORT OF JOINT VENTURES WITH GIRM OR PRIVATE MAURITANIAN BUSINESSMEN. DESPITE ITS PRESENT RESTRICTIVE EXCHANGE REGULATIONS --WHICH GOVERNMENT PROMISES WILL EVENTUALLY BE LOOSENED--GIRM CONTINUES TO ENCOURAGE PRIVATE FOREIGN INVESTMENT AND IS WILLING TO GUARANTEE CONVERTIBILITY AND EVEN GENEROUS PROFIT REPATRIATION TERMS FOR NEW INVESTORS ON A CASE BY CASE BASIS.

1. AS PREVIOUSLY REPORTED, GIRM BEGAN CLAMPING DOWN ON FOREIGN EXCHANGE TRANSACTIONS AND IMPORT LICENSES ALMOST IMMEDIATELY FOLLOWING THE NOVEMBER 1973 ANNOUNCEMENT OF MAURITANIA'S IMPENDING EXIT FROM THE FRANC ZONE. THE TIGHTENING UP PROCESS CONTINUED THROUGH JULY 1973, WHEN CFA FRANCS WERE WITHDRAWN FROM CIRCULATION AND THE NEW NATIONAL CURRENCY, THE OUGIYA, BECAME SOLE LEGAL TENDER HERE. AT THIS POINT, GIRM PUBLISHED EVEN STIFFER REGULATIONS LIMITING PROFIT REPATRIATION BY FOREIGN-CONTROLLED COMMERCIAL--BUT NOT MINING--COMPANIES TO FIFTY PERCENT. SALARIED EXPATRIATES WERE SIMILARLY ALLOWED TO REPATRIATE ONLY 30 PERCENT OF THEIR WAGES. ALMOST SIMULTANEOUSLY, GOVERNMENT BEGAN TO PROSECUTE EXPATRIATES WHO CONTINUED TO HOLD AND TRADE IN FOREIGN CURRENCY, PARTICULARLY CFA FRANCS. SEVERAL PROMINENT FRENCH AND LEBANESE RESIDENTS WERE JAILED AND FINED/ ONE LEBANESE PAID OVER ONE MILLION DOLLARS IN FINES; ANOTHER SOLD EXTENSIVE PROPERTIES AT A KNOCK-DOWN PRICE AND FLED THE COUNTRY TO AVOID PROSECUTION. AT THIS POINT (JULY-OCTOBER 1973) SEVERAL DOZEN SMALLER, MAINLY FRENCH, PETTY TRADERS DECAMPED, BUT LARGER TRADERS STOOD PAT AWAITING A LOOSENING OF RESTRICTIONS AND AN ECONOMIC UPTURN. MORE OR LESS CHRONIC IMPORTED CONSUMER GOODS SHORTAGES, WHICH HAD BEGUN IN EARLY 1973, CONTINUED UNABATED.

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2. THE BUSINESS SCENE CONTINUED STABLE UP TO THE NEW YEAR. NO FURTHER DEPARTURES OF EXPATRIATE BUSINESSMEN WERE NOTED, BUT SHORTAGES IN NEARLY EVERY LINE OF IMPORTED CONSUMABLES AND HARDWARE CONTINUED SEVERE. BUSINESSMEN AND BANKERS BLAMED THESE SHORTAGES ON NEW EXCHANGE CONTROL REGULATIONS AND INEFFICIENCY ON THE PART OF UNTRAINED MAURITANIAN CENTRAL BANKERS, WHO MUST APPROVE EACH AND EVERY INDIVIDUAL EXCHANGE TRANSACTION. BUSINESSMEN

ALSO CLAIMED, AND INDEED IT SEEMED TRUE THAT CENTRAL BANKERS WERE ENFORCING NEW EXCHANGE CONTROL REGULATIONS TO THE LETTER. FOR INSTANCE, LETTERS OF CREDIT ISSUED HERE WERE AND STILL ARE VALID FOR ONLY EIGHT DAYS FROM THE DATE OF ISSUE, A PROVISION WHICH EVEN THE LARGER TRADING COMPANIES FIND EXTREMELY RESTRICTIVE.

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3. BEGINNING IN MID-JANUARY, THERE APPEARED THE BEGINNINGS OF A TREND. GIRM EFFORTS TO INCREASE MAURITANIAN PARTICIPATION IN EXPORT-IMPORT TRADE (FORMERLY DOMINATED BY FRENCH AND LEBANESE MIDDLE-MEN) GOT INTO HIGH GEAR WITH THE APPOINTMENT OF A NEW AND ENERGETIC MINISTER OF TRANSPORT AND COMMERCE. SMALLER EXPATRIATE FRENCH FIRMS, FINDING THEIR PROFITS EVAPORATING, BEGAN TO SELL-OUT TO MAURITANIAN ENTREPRENEURS. GIRM, IN AN EFFORT TO LOOSEN THE TIGHT CONSUMER GOODS SUPPLY SITUATION, ADJUSTED CEILING PRICES UPWARD BY 15 PERCENT AND MORE, AND THEN RAISED BOTH GOVERNMENT SALARIES AND THE MINIMUM WAGE BY AN EQUAL AMOUNT.

4. BY THE END OF FEBRUARY 1974, IT BECAME CLEAR THAT, ALTHOUGH THE LARGER FRENCH-OWNED TRADING FIRMS WERE STANDING FIRM, SMALLER EXPATRIATE MIDDLE-MEN WERE SLOWLY BUT SURELY BEING SQUEEZED OUT THROUGH A COMBINATION OF EXCHANGE RESTRICTIONS AND

GOVERNMENT PRESSURE FOR MAURITANIZATION OF IMPORT-EXPORT TRADE. THE LARGER FRENCH AND LEBANESE TRADERS SEEMED TO BE HOLDING THEIR OWN AND WERE BETTING THAT GIRM WOULD EVENTUALLY LOOSEN UP EXCHANGE CONTROLS AND PROFIT REPATRIATION REGULATIONS. AS USUAL IN AFRICA, THE LEBANESE ARE IN THE MOST EXPOSED POSITION. MANY LEADERS OF  
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THAT COMMUNITY (ESTIMATED AT SOME 500) HAVE BECOME MAURITANIAN CITIZENS AND ARE EXTENSIVE PROPERTY OWNERS HERE. UNDER PRESENT EXCHANGE REGULATIONS, THEY CANNOT REALIZE MORE THAN A FRACTION ON THEIR CONSIDERABLE INVESTMENTS IF THEY SELL-OUT AND LEAVE THE COUNTRY.

5. IN LIGHT OF THE FOREGOING, WE EXPECT THE LARGER FRENCH FIRMS AND MOST LEBANESE BUSINESSMEN TO STICK IT OUT FOR AT LEAST SEVERAL MORE MONTHS IN THE EXPECTATION OF A LOOSER EXCHANGE

CONTROL REGULATIONS AND B) A BUSINESS UP-TURN. GIRM'S AMBITIOUS INDUSTRIALIZATION PROGRAM (PETROLEUM REFINERY, SUGAR REFINERY, CEMENT PLANT, ETC.) MAY PROVIDE THE KIND OF ECONOMIC BOOST THESE BUSINESSMEN ARE LOOKING FOR. SMALLER TRADERS, PARTICULARLY THOSE FRENCH WHO HAVE PROPERTY AND BUSINESS INTERESTS ELSEWHERE IN AFRICA OR IN EUROPE, WILL CONTINUE TO DRIBBLE OUT OF THE COUNTRY TO BE REPLACED BY MAURITANIAN ENTREPRENEURS.

6. WHILE MAURITANIA HAS NEVER BEEN VERY ATTRACTIVE TO AMERICAN OR EUROPEAN INVESTORS (AGAIN, MINING IS THE EXCEPTION), FOREIGN ENTREPRENEURS SEEKING TO ENTER INTO JOINT VENTURES WITH GIRM OR PRIVATE MAURITANIANS SHOULD CONTINUE TO GET FAVORABLE TREATMENT HERE DESPITE CONVERTIBILITY PROBLEMS. GIRM'S LIBERAL INVESTMENT CODE REMAINS IN FORCE AND GIRM OFFICIALS ARE ACTIVELY COURTING AMERICAN AND OTHER POTENTIAL INVESTORS IN THE FIELDS OF MINING, TEXTILE MANUFACTURE AND ROAD TRANSPORT. GIRM AND PRIVATE MAURITANIAN BUSINESSMEN ARE PARTICULARLY ANXIOUS TO INTEREST US BUSINESS IN JOINT VENTURES AND IN TURN-KEY CONSTRUCTION PROJECTS, SUCH AS THE SUGAR AND PETROLEUM REFINERY PROJECTS ALREADY UNDERWAY USING AMERICAN ENGINEERING EXPERTISE.

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